

Chapter Nine: Refunds and Cost Reductions

Members may receive a refund of retirement contributions, or a refund or reduction in the 2.2 upgrade cost if they meet certain criteria.

If a member terminates teaching with a TRS employer, he or she may apply for a refund of retirement contributions. This refund consists of the portions used to pay the retirement annuity and the annual increases in the annuity.

If a member receives a refund of retirement contributions, he or she is not entitled to any other refunds. The contribution to the Teachers' Health Insurance Security (THIS) Fund is not refundable.

If the member does not have a dependent beneficiary at retirement, the member may apply for a refund of the 1 percent portion for survivor benefits.

A member may receive a refund or reduction of the 2.2 upgrade cost with interest under the following conditions:

- If a member retires with more than 34 years of upgraded 2.2 service credit, he or she may receive a refund or a reduction of the 2.2 upgrade cost.
- For every three years a member teaches after July 1, 1998, the equivalent of one year of the 2.2 upgrade cost will be reduced or refunded.

Refund of retirement contributions

A member's retirement contribution is composed of the portion of the total contribution applied towards the cost of the retirement annuity and the portion applied towards the cost of the automatic annual increases in the retirement annuity. This is the amount that appears as "refundable contributions" on the Personal Statement of Benefits. Accumulated interest on contributions is not refundable.

The amount refunded is at the rate of 7 percent of gross creditable earnings prior to July 1, 1998, and 8 percent of gross creditable earnings thereafter without interest.

Eligibility

A member who has terminated his or her teaching duties with a TRS employer may apply for a refund of the retirement contributions. A member who is on sick leave, a sabbatical leave, an unpaid leave of absence, or has accepted employment with a new TRS-covered employer is not eligible for a refund.

Effect of receiving a refund

When a member accepts a refund, he or she forfeits all rights to TRS benefits. Members considering a refund may want to contact us for an estimate of potential retirement and survivor benefits forfeited by accepting the refund and for any special tax consequences that may apply. If a member chooses not to receive a refund, the member's contributions will remain with TRS and will eventually provide a retirement benefit. Members with fewer than five years of service credit are eligible to receive a single-sum retirement benefit at age 65. Members with five or more years of service are eligible to receive a retirement annuity. (See Chapter 11, Retirement Benefits.)



Transfer of credit

TRS cannot transfer creditable service (and the funding for that service) directly to a retirement system in another state. However, many retirement systems permit purchase of out-of-system service. We will provide the other system with verification of Illinois teaching service if the member accepts a refund and sends us a written request. A member may then make payment for service directly to the other system if this is required or request a rollover of refundable contributions. (See “Refunds eligible for rollovers”)

Application procedure

To obtain a refund, a member must file a Refund Application with us. The application is available by calling our Member Services Division at (800) 877-7896. The application can be returned any time after the member has formally resigned from his or her TRS-covered position. We will process the refund and forward it to the Office of the Comptroller for payment when four months have passed since the member’s final day of teaching.

Average processing time is six weeks. However, it may be longer if the member worked in multiple districts during his or her last year of teaching or if we must clarify incorrect or incomplete information.

Repayment of refunds

A member may repay the refund, together with interest, from the date of the refund to the date of the repayment. However, service credit that was previously forfeited by taking a refund may not be used as a basis for payment of benefits until the member completes one year of TRS creditable service following the refunded service. Repayment of the refund is permitted under the provisions of the Illinois Retirement Systems Reciprocal Act after the member completes at least two years of service with a reciprocal system following the date of the refunded service credit. (See Chapter 7, Optional Service Credit.)

The refund repayment and teaching requirements must be completed prior to the member’s retirement, death, or commencement of disability benefits.

Refunds of 1 percent retirement contributions

Members whose membership began prior to July 1, 1998; who do not upgrade their pre-July 1998 service credit to the 2.2 benefit formula; and who retire with more than 34 years of service credit are entitled to a refund of 1 percent of creditable earnings after the later of June 30, 1998, or the attainment of 34 years of service credit. Sick leave is not considered when determining the attainment of 34 years of service credit.

The refund is paid at retirement. We automatically notify the member of the refund amount after the member’s retirement claim is processed. These contributions are refundable because the member’s retirement benefit is not calculated under the 2.2 benefit formula. This refund is taxable for federal income tax purposes.

Refund of survivor benefit contributions

The refundable amount is 1 percent of total gross creditable earnings for each year of teaching service after July 24, 1959. This refund may be redirected to pay a member’s 2.2 upgrade cost.

Eligibility requirements

At the time of applying for a retirement annuity or while receiving a retirement annuity, a member who contributed to TRS after July 24, 1959, may take a refund of his or her survivor benefit contributions if he or she does not have a dependent beneficiary. A dependent beneficiary is:

- a. a spouse to whom the member has been married for at least one year, except where a child is born of the marriage in which case the qualifying period is not applicable;
- b. an unmarried natural or adopted child under age 18, or between age 18 and 22 if a full-time student in an accredited educational institution, or an unmarried natural or adopted child of any age who is financially dependent upon a member or surviving spouse by reason of a physical or mental disability and who is not receiving benefits under Article III of the Illinois Public Aid Code; **or**
- c. a dependent parent who received from the member at least half of his or her support for the 12-month period immediately prior to the member's death.

For an adopted child to be an eligible dependent beneficiary, the adoption proceedings must have been finalized while the child was a minor. For purposes of determining dependency, "disability" is defined as an inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to last for a continuous period of 12 months or more. A parent may be an eligible dependent beneficiary only if there is no other dependent beneficiary.

Effects of receiving a refund

When a member receives a refund of his or her survivor benefit contributions, the member waives all rights to his or her beneficiary's receiving survivor benefits. However, the member's remaining accumulated retirement contributions, if any, still remain payable to the member's beneficiaries upon the member's death.

Application procedure

When the member is applying for retirement or at anytime thereafter, the member may request a Refund of Survivor Benefit Contributions Application form from us. The form will not be sent until the processing of the member's retirement is complete. Completed forms must be returned to our Springfield office. Within approximately six weeks after we receive the completed application, we will process the refund and will forward it to the Office of the Comptroller for payment.

Repayment of refund

The survivor benefit refund may be repaid with interest if the member returns to teaching and earns one year of creditable service.

Refund or reduction of the 2.2 upgrade cost

Effective June 4, 1999, if a member retires with more than 34 years of service credit, he or she may receive:

- a 25 percent reduction in upgrade costs for each year of creditable service beyond 34 years, up to a maximum of 100 percent. Partial years are prorated.
- or



- refunds of optional service purchases or refund repayments that cause total service to exceed 34 years. The refund is based on the average cost of the optional service.
- If a member has both options available, we will automatically refund the greater of these mutually exclusive refund options.

For every three years taught after July 1, 1998, the equivalent of one year of the 2.2 upgrade cost will be reduced or refunded.

25 percent-per-year refund

The following table shows the upgrade cost reduction feature for retirements that are effective on June 4, 1999, or later. Partial years will be prorated.

We will calculate the amount of any refund due and will credit the member with 6 percent interest.

Years of Service	Percentage of 2.2 Upgrade Cost Refunded
34	0%
35	25%
36	50%
37	75%
38	100%

Refund of excess purchases and repayments

TRS will prorate refunds of optional service purchases that cause a member who has upgraded to exceed 34 years of service credit. The amount refunded will be based on the average cost of all optional service the member has purchased.

We will return the entire amount of a payment made to repay a prior refund of TRS member contributions under the following conditions:

- the entire amount of the repayment must be refunded. By law, we cannot return a portion of a refund repayment.
- the member must have at least 34 years of service credit after the return of the repayment.

The Illinois Pension Code does not authorize payment of interest on refunds of excess purchased service.

Refunds eligible for rollovers

All refund payments may be either made directly to the member or directly rolled over to an eligible retirement plan specified by the member. In a direct rollover, the eligible rollover distribution (the taxable portion) is paid directly from us to an individual retirement account (IRA) or another qualified retirement plan that accepts rollovers. By using a direct rollover, the member avoids a 20 percent withholding requirement if the payment is made directly to the member. Also, if the member chooses a direct rollover, the distribution is not taxed until it is withdrawn from the IRA or other qualified retirement plan.

Taxability of refunds

Refunds are not subject to the Illinois Individual Income Tax. However, any portion of the refund attributable to contributions made by either the member or employer that were excluded from taxable income in the years the contributions were made is subject to federal income tax.

To help in tax planning, correct and complete applications received by the close of business on December 5 will be processed in the current tax year. Refund applications received after December 5 will be processed in the next tax year.

Refund recipients will be notified of the taxable portion of their refunds. We also will report the refund payment to the Internal Revenue Service on IRS Form 1099-R and will send the refund recipient a copy of this form in January or February in the year after the refund is taken.

Special tax consequences and penalties may apply to refund payments. Members should consult a professional tax consultant for details of the taxability of refunds. Additional information is also contained in Internal Revenue Service Publication 575, *Pension and Annuity Income*. To obtain this publication, visit the IRS Web site, www.irs.gov or call (800) 829-3676.

